

**Financial Statements**

**Village of Shepherd**

**February 29, 2004**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

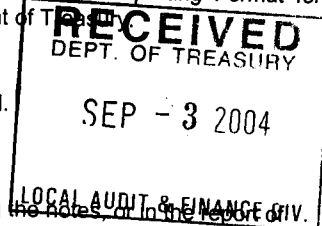
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Shepherd</b>	County <b>Isabella</b>
Audit Date <b>2/29/04</b>	Opinion Date <b>6/3/04</b>	Date Accountant Report Submitted to State: <b>9/2/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>ROSLUND, PRESTAGE AND COMPANY, PC</b>			
Street Address <b>308 GRATIOT AVENUE</b>		City <b>ALMA</b>	State <b>MI</b>
Accountant Signature <i>Roslund, Prestage &amp; Company, P.C.</i>		ZIP <b>48801</b>	Date <b>9/2/04</b>

Village of Shepherd  
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## INDEPENDENT AUDITOR'S REPORT

Village of Shepherd  
Shepherd, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Shepherd (the Village) as of and for the year ended February 29, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village as of February 29, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 3, 2004 on our consideration of the Village's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-II and the budgetary comparison information on pages 26-27 are not a required part of the basic financial statements but is supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Village's basic financial statements. The other supplemental information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

June 3, 2004

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

VILLAGE OF SHEPHERD  
Management's Discussion and Analysis

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Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances.

Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased 13.5% from a year ago - decreasing from \$3,366,153 to \$2,908,361. In contrast, last year's net assets decreased nearly 50%, largely due to a change in accounting policy regarding capital assets. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities decrease by \$484,401 during the year (27% decrease). This was mainly the result of the completion of the major street fund project. The business-type activities experienced a \$26,609 increase in net assets.

The table below shows a condensed statement of the net assets as of February 29, 2004:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Current Assets	\$1,586,451	\$283,051	\$1,869,502
Noncurrent Assets	404,677	3,217,854	3,622,531
Total Assets	1,991,128	3,500,905	5,492,033
Current Liabilities	681,860	181,812	863,672
Non-current Liabilities	-	1,720,000	1,720,000
Net Assets:			
Invested in Capital Assets, Net	404,677	1,600,905	2,005,582
Restricted	447,427	-	447,427
Unrestricted	457,164	(1,812)	455,352
Total net assets	1,309,268	1,599,093	\$2,908,361

The current level of unrestricted net assets for our governmental activities stands at \$457,164, or about 33% of expenditures.

Expenditures of the governmental funds increased by about \$233,700 during the year, which was expected from the budget that was set.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 95% of Village residents, through the Village sewage treatment plant.

## VILLAGE OF SHEPHERD

### Management's Discussion and Analysis

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#### The Village's Funds

Our analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property taxes.

The General Fund pays for most of the Village's governmental services. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific capital outlay approved by the Village Board.

#### General Fund Budgetary Highlights

Over the course of the year, the Village Board amended the budget to take into account events during the year. There were no significant changes, other than major road construction, which was funded by grant monies. Budget-to-actual statements are shown on pages 26-27 of the report. Total expenditures for the governmental funds were \$46,513 over budget.

#### Capital Asset and Debt Administration

At the end of 2004, the Village had \$3,622,531 invested in a broad range of capital assets, including buildings, police, and water and sewer lines. In addition, the Village has invested significantly in major and local roads within the Village. These assets are not reported in the Village's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them).

#### Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2004-2005 calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than by inflation, before considering new property additions.

#### Contacting Village Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village at 251 W. Wright Avenue, Shepherd, Michigan, 48883. The Village phone number is (989) 828-5278.



**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

Village of Shepherd  
Statement of Net Assets  
February 29, 2004

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$770,405	\$245,655	\$1,016,060
Accounts receivable, net	751,996	26,596	778,592
Due from other governmental units	48,907	-	48,907
Inventory	-	10,800	10,800
Prepaid items	15,143	-	15,143
Total current assets	1,586,451	283,051	1,869,502
Noncurrent assets			
Capital assets - depreciable, net	404,677	3,217,854	3,622,531
Total assets	1,991,128	3,500,905	5,492,033
<b>Liabilities</b>			
Current liabilities			
Accounts payable	24,593	1,219	25,812
Accrued wages and other payroll liabilities	3,259	593	3,852
Deferred revenue	654,008	-	654,008
Current portion of long-term debt	-	180,000	180,000
Total current liabilities	681,860	181,812	863,672
Noncurrent liabilities			
Capital lease	-	1,720,000	1,720,000
<b>Net Assets</b>			
Invested in capital assets, net of related debt	404,677	1,600,905	2,005,582
Restricted for capital projects	138,662	-	138,662
Restricted for debt service	308,765	-	308,765
Unrestricted	457,164	(1,812)	455,352
Total net assets	\$1,309,268	\$1,599,093	\$2,908,361

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Activities  
For the year ended February 29, 2004

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities						
Legislative						
General government	\$26,345	-	-	-	(\$26,345)	-
Public safety	99,431	\$48,307	-	-	(51,124)	-
Public works	145,945	-	-	-	(145,945)	-
Recreation and culture	729,830	-	-	-	(729,830)	-
Capital outlay	3,636	-	-	-	(3,636)	-
Debt service	31,377	-	-	-	(31,377)	-
Other expenditures	242,968	233,157	-	-	(9,811)	-
	97,730	-	-	-	(97,730)	-
Total governmental activities	1,377,262	281,464	-	-	(1,095,798)	-
Business type activities						
Water and sewer	287,400	130,401	-	-	-	-
Total	\$1,664,662	\$411,865	-	-	(156,999)	(156,999)
General revenues and transfers						
Taxes						
State shared revenues						
Unrestricted investment earnings						
Miscellaneous revenues						
Transfers						
Transfers - debt service payment						
Total general revenues and transfers						
Change in net assets						
Net assets - beginning of year						
Net assets - end of year						

The notes to the financial statements are an integral part of this statement.

**FUND FINANCIAL STATEMENTS**

Village of Shepherd  
Balance Sheet  
Governmental Funds  
February 29, 2004

<b>Assets</b>	General	Major Street	Local Street	Police	Debt Service	Capital Projects	Total
Cash and cash equivalents	\$171,653	\$153,025	\$50,106	\$40,238	\$216,721	\$138,662	\$770,405
Accounts receivable, net	15,519	-	-	597	735,880	-	751,996
Due from other governmental units	13,786	14,742	5,207	-	15,172	-	48,907
Prepaid items	15,143	-	-	-	-	-	15,143
Total assets	<u>\$216,101</u>	<u>\$167,767</u>	<u>\$55,313</u>	<u>\$40,835</u>	<u>\$967,773</u>	<u>\$138,662</u>	<u>\$1,586,451</u>
<b>Liabilities</b>							
Accounts payable	\$13,029	\$3,617	\$1,417	\$1,530	\$5,000	-	\$24,593
Accrued wages and other payroll liabilities	1,237	394	339	1,289	-	-	3,259
Deferred revenues	-	-	-	-	654,008	-	654,008
Total liabilities	<u>14,266</u>	<u>4,011</u>	<u>1,756</u>	<u>2,819</u>	<u>659,008</u>	<u>-</u>	<u>681,860</u>
<b>Fund balances</b>							
Reserved for debt service	-	-	-	-	308,765	-	308,765
Reserved for capital projects	-	-	-	-	-	\$138,662	138,662
Reserved for prepaid items	15,143	-	-	-	-	-	15,143
Unreserved	186,692	163,756	53,557	38,016	-	-	442,021
Total fund balances	<u>201,835</u>	<u>163,756</u>	<u>53,557</u>	<u>38,016</u>	<u>308,765</u>	<u>138,662</u>	<u>904,591</u>
Total liabilities and fund balances	<u>\$216,101</u>	<u>\$167,767</u>	<u>\$55,313</u>	<u>\$40,835</u>	<u>\$967,773</u>	<u>\$138,662</u>	<u>\$1,586,451</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
To Net Assets of Governmental Activities on the Statement of Net Assets  
For the year ended February 29, 2004

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Total fund balance - governmental funds	\$904,591
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	823,130
Deduct: accumulated depreciation	(418,453)
Net assets of governmental activities	<hr/> \$1,309,268 <hr/>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended February 29, 2004

	General	Major Street	Local Street	Police	Debt Service	Capital Projects	Total
<b>REVENUES</b>							
Property taxes	\$255,058	-	-	-	-	-	\$255,058
Special assessment	-	-	-	-	-	-	-
State shared revenues	168,505	\$79,317	\$27,946	\$633	\$155,719	-	155,719
Charges for services	48,307	-	-	-	-	-	276,401
Interest and rents	57,442	3,513	606	470	77,438	-	125,745
Miscellaneous	10,761	-	-	6,770	3,418	\$1,322	66,771
							17,531
Total revenues	540,073	82,830	28,552	7,873	236,575	1,322	897,225
<b>Expenditures</b>							
Legislative	26,345	-	-	-	-	-	26,345
General government	95,391	-	-	-	-	-	95,391
Public safety	37,453	-	-	-	-	-	143,060
Public works	187,390	450,642	47,622	105,607	-	-	685,654
Recreation and culture	3,636	-	-	-	-	-	3,636
Capital outlay	31,377	-	-	-	-	-	31,377
Debt service	-	-	-	-	-	-	270,305
Other expenditures	97,730	-	-	-	270,305	-	97,730
							1,353,498
Total expenditures	479,322	450,642	47,622	105,607	270,305	-	1,353,498
Excess of revenues over (under) expenditures	60,751	(367,812)	(19,070)	(97,734)	(33,730)	1,322	(456,273)
<b>Other financing sources (uses)</b>							
Transfers in	51,344	12,972	9,542	85,000	20,000	58,541	237,399
Transfers (out)	(114,795)	(58,479)	-	-	-	(68,489)	(241,763)
							(4,364)
Total other financing sources (uses)	(63,451)	(45,507)	9,542	85,000	20,000	(9,948)	(4,364)
Excess of revenue and other sources over (under) expenditures and other uses	(2,700)	(413,319)	(9,528)	(12,734)	(13,730)	(8,626)	(460,637)
Fund balance - beginning of year	182,990	563,540	58,067	50,750	322,495	147,288	1,325,130
Prior period adjustment	21,545	13,535	5,018	-	-	-	40,098
Fund balance - end of year	\$201,835	\$163,756	\$53,557	\$38,016	\$308,765	\$138,662	\$904,591

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Reconciliation of the Statement of Revenues, Expenditures  
And Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the year ended February 29, 2004

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Net change in fund balances - total governmental funds

(\$460,637)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Deduct: depreciation expense

(51,101)

Governmental funds report payment of principal and interest on long-term debt as  
an expenditure. However, in the statement of activities only the interest is recorded  
as an expenditure. The principal is recorded as a reduction to the long-term liabilities:  
Add: principal paid on debt - Ford Motor Credit

15,878

Revenues in the statement of activities that do not provide current financial resources  
are not reported as revenues in the funds. Also, some expenses reported in the statement  
of activities do not require the use of current financial resources and, therefore, are not  
reported as expenditures in governmental funds.

Add: miscellaneous adjustments

11,459

Change in net assets of governmental activities

(\$484,401)

The notes to the financial statements are an integral part of this statement.



Village of Shepherd  
Proprietary Funds  
Statement of Net Assets  
February 29, 2004

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Assets	
Cash and cash equivalents	
Accounts receivable	\$245,655
Inventory	26,596
	<u>10,800</u>
Total Current Assets	<u>283,051</u>
Property, Plant and Equipment, net	
	<u>3,217,854</u>
Total Assets	<u>\$3,500,905</u>
Liabilities	
Accounts payable	
Accrued wages and other payroll liabilities	\$1,219
	<u>593</u>
Total Liabilities	<u>1,812</u>
Net Assets	
Unrestricted	
	<u>3,499,093</u>
Total Liabilities and Net Assets	<u>\$3,500,905</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Net Assets  
For the year ended February 29, 2004

Operating revenues	
Service charges	
User fees	\$110,074
Hydrant rental	9,749
Miscellaneous	1,500
	<u>9,078</u>
Total operating revenues	<u>130,401</u>
Operating expenses	
Salaries and wages	
Fringe benefits	31,936
Supplies	2,425
Contracted services	28,565
Rentals	61,601
Repairs	281
Debt payment	11,724
Utilities	20,000
Depreciation	9,357
Miscellaneous	115,093
	<u>6,418</u>
Total operating expenses	<u>287,400</u>
Operating income (loss)	(156,999)
Non-operating revenues (expenses)	
Interest income	
Other	4,517
	<u>14,091</u>
Total non-operating revenues (expenses)	<u>18,608</u>
Other financing sources (uses)	
Operating transfers in (out)	<u>(15,000)</u>
Change in net assets	(153,391)
Net assets - beginning of year	<u>3,652,484</u>
Net assets - end of year	<u><u>\$3,499,093</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Proprietary Funds  
Statement of Cash Flows  
For the year ended February 29, 2004

Cash flows from operating activities:	
Income from operations	
Adjustments to reconcile net income	(\$156,999)
to net cash provided by operating activities:	
Depreciation	115,093
(Increase) decrease in:	
Accounts receivable	(8,208)
Increase (decrease) in:	
Accounts payable	1,218
Accrued expenses	262
Net cash provided by operating activities	<u>(48,634)</u>
Cash flows from non-capital financing activities:	
Operating transfers in	10,000
Operating transfers (out)	(25,000)
Cash flows from capital and related financing activities	
Purchases of fixed assets	(44,155)
Cash flows from investing activities:	
Interest income	4,517
Other	14,521
Net cash provided by investing activities	<u>19,038</u>
Net increase (decrease) in cash and cash equivalents	(88,751)
Cash and cash equivalents - beginning of year	<u>334,406</u>
Cash and cash equivalents - end of year	<u><u>\$245,655</u></u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The Village of Shepherd (the Village) is a General Law Village incorporated under PA 3 of 1895. The Village operates under a 7-member elected Village Council and provides a wide range of municipal services to Village residents. The accompanying financial statements present the Village and its component units, entities for which the government is considered financially accountable. The reporting entity of the Village excludes the Shepherd Tri-Township Fire Department in accordance with the criteria established by the National Council on Governmental Accounting Statements Number 3. This entity is considered a joint venture of the local units involved.

### Jointly Governed Organization

The Village, in conjunction with Coe, Lincoln, and Chippewa Townships, entered into an agreement to operate the Shepherd Tri-Township Fire Department. Its purpose is to provide fire protection to the residents in the tri-township area. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Village Statement Number 14.

Based on the application of these criteria, the financial statements of the Shepherd Tri-Township Fire Department, a joint venture which operates autonomously under a service agreement among the participating units, are not included in these financial statements.

### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Village of Shepherd  
Notes To The Financial Statements

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Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year-end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Shepherd  
Notes To The Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village are charges to customers for water, sewer, and trash services. Operating expenses for the enterprise funds include the cost of administration expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Fund Accounting**

The financial activities of the Village are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Village uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Village that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

#### Governmental Funds

*General Fund* – This fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in other funds.

Village of Shepherd  
Notes To The Financial Statements

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*Special Revenue Funds* - The special revenue funds account for the revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

*Debt Service Funds* - The debt service fund is used to record special assessments collected, interest, and other revenue for payment of principal, interest, and other expenditures on the Storm Water Separation Project debt.

*Capital Projects Fund* - The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds.

Proprietary Funds

*Water and Sewer Funds* - These funds report operations that provide water and sewer services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Management has decided to classify all governmental and proprietary funds as major funds.

In addition to the governmental and proprietary funds the Village has the following other funds:

Agency Fund

The Village maintains agency funds to account for property tax collections and payroll related withholdings.

**Budgetary Data**

Formal budgetary control is implemented for all required funds and the budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. The budget is adopted at the function level. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted. The Village does not maintain a formalized encumbrance accounting system.



Village of Shepherd  
Notes To The Financial Statements

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### **Cash and Cash Equivalents**

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments in certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

### **Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

### **Inventories**

The Village generally does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Village of Shepherd  
Notes To The Financial Statements

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### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Village are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	3-10
Computers	2-5
Vehicles	5-15
Buildings and Improvements	40-50
Land	Not Depreciated

### Deferred Revenue

Deferred revenues arise when the Village receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Village has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Governmental Funds – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

#### **Grants**

Grants are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

#### **Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Village's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **Budgetary Information**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the year ended February 29, 2004, The Village incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report.

Village of Shepherd  
Notes To The Financial Statements

**NOTE 3 - CASH AND INVESTMENTS**

At February 29<sup>th</sup> the carrying amount of the Village's cash and cash investments are as follows:

<b>Cash And Cash Equivalents</b>	<b>Amount</b>
Petty Cash	\$90
Checking, Savings, & Money Market Accounts	774,871
Certificates of Deposit	241,099
<b>Total</b>	<b>\$1,016,060</b>

At February 29, 2004 the bank balance was \$1,160,870. The difference between the bank balance and the carrying amount shown above is due to outstanding deposits and checks. Of the bank balance, \$289,924 was covered by federal depository insurance and \$870,946 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable as of February 29th, consists of the following:

<b>Fund / Receivable</b>	<b>Amount</b>
<b>General Fund:</b>	
Trash	
Other	\$12,150
	3,369
<b>Debt Service Fund – Storm Water Separation Project:</b>	
Special Assessments	735,880
<b>Water Fund:</b>	
Water Fees	17,088
<b>Sewer Fund:</b>	
Sewer Fees	9,508
<b>Police Fund:</b>	
Fines and Forfeits	597
<b>Total</b>	<b>\$778,592</b>

Village of Shepherd  
Notes To The Financial Statements

**NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of February 29th, consists of the following:

<b>Fund / Due From</b>	<b>Amount</b>
General Fund:	
County of Isabella – Property Taxes	\$13,786
Major Street:	
State of Michigan	14,742
Local Street:	
State of Michigan	5,207
Debt Service Fund – Storm Water Separation Project:	
County of Isabella – Property Taxes	15,172
<b>Total</b>	<b>\$48,907</b>

**NOTE 6 - PREPAIDS**

Prepaid expenses represent payments for fire services to Tri-Township Fire Department for services that will benefit future periods.

**NOTE 7 – CAPITAL ASSETS**

Capital assets activity for the year ended February 29, 2004 for the *governmental activities* was as follows:

<b>Governmental Activities</b>	<b>3/1/03</b>	<b>Additions</b>	<b>Disposals</b>	<b>2/29/04</b>
<b>CAPITAL ASSETS:</b>				
Land	\$10,000	-	-	\$10,000
Buildings & Improvements	253,800			253,800
Machinery & Equipment	328,558	-	-	328,558
Vehicles	230,772	-	-	230,772
Sub-total	823,130	-	-	823,130
<b>ACCUMULATED DEPR:</b>				
Buildings & Improvements	(74,148)	(\$4,836)	-	(78,984)
Machinery & Equipment,	(161,754)	(17,604)	-	(179,358)
Vehicles	(131,450)	(28,661)	-	(160,111)
Sub-total	(367,352)	(51,101)	-	(418,453)
<b>NET CAPITAL ASSETS</b>	<b>\$455,778</b>	<b>(\$51,101)</b>	<b>-</b>	<b>\$404,677</b>

Village of Shepherd  
Notes To The Financial Statements

Capital assets activity for the year ended February 29, 2004 for the *business-type* activities was as follows:

Business-Type	Beginning Balance	Additions	Disposals	Ending Balance
<b>CAPITAL ASSETS:</b>				
Land	\$31,186	-	-	\$31,186
Buildings & Improvements	4,502,350	-	-	4,502,350
Machinery & Equipment	59,242	\$44,155	-	103,397
Sub-total	4,592,778	44,155	-	4,636,933
<b>ACCUMULATED DEPR:</b>				
Buildings & Improvements	(1,250,106)	(112,559)	-	(1,362,665)
Machinery & Equipment	(53,880)	(2,534)	-	(56,414)
Sub-total	(1,303,986)	(115,093)	-	(1,419,079)
<b>NET CAPITAL ASSETS</b>	<b>\$3,288,792</b>	<b>(\$70,938)</b>	<b>-</b>	<b>\$3,217,854</b>

Depreciation expense was charged to programs as follows:

<b>GOVERNMENT ACTIVITIES:</b>	
General Government	\$4,040
Public Safety	2,885
Public Works	44,176
Total Government Activities	51,101
<b>BUSINESS-TYPE ACTIVITIES:</b>	
Water	56,098
Sewer	58,995
Total Business-Type Activities	115,093
<b>Total</b>	<b>\$166,194</b>

Village of Shepherd  
Notes To The Financial Statements

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**NOTE 8 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental fund also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue	Amount
Special Assessments Not Yet Due	\$654,008

**NOTE 9 - STORM WATER SEPARATION PROJECT**

During the 1994-95 fiscal year the Village of Shepherd contracted with the Isabella County Department of Public Works (DPW) for the construction associated with the improvements of the Sewer Disposal and Water Systems of the Village.

Beginning with the 1994 tax levy, a special assessment was established against Village property owners in order to provide a portion of the funds needed to service the Isabella County DPW loan. The total special assessment principal balance was \$2,493,341, bears an interest rate of 6.87%, and is being assessed over a twenty year period. Property owners were given the option to pay their portion of the assessment in full at any time to avoid additional interest on the assessment. These advance payments have been recorded as deferred revenue for the portion attributable to years after fiscal year ending February 29, 2000. This amount which has been recognized as deferred revenue is then being recognized as revenue proportionately over the remaining life of the deferral.

The remaining portion of the Isabella County DPW loan is serviced by capital surcharges which were added to customers quarterly water bills. The water capital surcharge is 80 cents per 1,000 gallons of water used. The sewer capital surcharge is also 80 cents per 1,000 gallons of water used. Special assessment collection activities and the capital surcharges are accounted for in the Storm Water Separation Project Debt Service Fund.

## NOTE 10 - LONG-TERM DEBT

### Capital Lease

The Village entered into a capital lease arrangement for financing the Waste Water Sanitary Improvement Facility. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, a capital asset has been recorded at the present value of the minimum lease payments as of the date of the lease. The lease agreement was entered into on January 1, 1999 and the present value of the minimum lease payments at that time was \$2,460,000.

Additional information regarding this lease can be found in the back of this report.

### Compensated Absences

#### Vacation

Employees are allowed to accumulate and carry forward up to 48 hours of vacation time. Amounts accumulated are to be paid to the employee either when vacation time is actually taken or upon termination of employment. These financial statements do not reflect a liability for unused vacation hours since the amount is not material.

#### Sick

Sick leave is earned at the rate of 96 hours per year for full-time employees, not to exceed 90 days and a pro-rata number of hours for part-time employees. Upon termination of employment, all sick leave benefits are forfeited. These financial statements do not reflect a liability for unused sick leave hours since they do not vest or accumulate from year to year.

The changes in long-term debt during the fiscal year ended February 29, 2004 are as follows:

Description	Balance 3/1/02	Additions	Reductions	Balance 2/29/04
Capital Leases	\$2,080,000	-	\$180,000	\$1,900,000
Ford Motor Credit	15,878	-	15,878	-
Totals	\$2,095,878	-	\$195,878	\$1,900,000



Village of Shepherd  
Notes To The Financial Statements

The annual requirements to pay principal and interest on the obligations outstanding at February 29, 2004 are as follows:

For The Fiscal year Ending February 28,	Amount
2005	\$258,666
2006	251,106
2007	253,336
2008	245,356
2009	237,327
2010 and thereafter	1,081,395

**NOTE 11 – JOINT VENTURE**

The Village is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Village and Chippewa, Coe, and Lincoln Townships. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget. The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2003, the most recent financial statements available:

Total Assets	\$1,939,234
Total Liabilities	0
Total Equity	1,939,234
Total Revenues	200,323
Total Expenditures	253,548

Total assets (and fund equity) includes \$1,787,340 in fixed assets at cost.

For the Fire Department's year ended November 30, 2003 the share of the annual budget for each participating unit was:

Governmental Unit	Share of Budget
Village of Shepherd	15%
Chippewa Township	44%
Lincoln Township	22%
Coe Township	19%
Total	100%

Village of Shepherd  
Notes To The Financial Statements

**NOTE 12 – PENSION PLAN**

The following table presents information required by GASB Statements Number 25 and 27.

<b>GASB 25 INFORMATION</b>	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$0
Terminated Employees Not Yet Receiving Benefits	106,931
Non-vested Terminated Employees (pending refunds of accumulated member contributions)	2,444
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income Employer Financed	12,778 36,209
Total Actuarial Accrued Liability	158,362
Net Assets Available For Benefits At Actuarial Value (market value \$293,535)	321,469
Unfunded (Overfunded) Actuarial Accrued Liability	(\$163,107)
<b>GASB 27 INFORMATION</b>	
Fiscal Year Beginning	March 1, 2005
Annual Required Contributions (ARC)	\$0
Amortization Factor Used – Underfunded Liabilities (33 years)	.053632
Amortization Factor Used – Underfunded Liabilities (10 years)	.119963

The Village of Shepherd participates in the Michigan Municipal Employees Retirement System (MERS), which is an agent multiple-employer public employee retirement system. All full-time employees (excluding officials) of the Village are eligible to participate in the system.

General Village and Police Department employees who retire at or after the age of 60 with 10 years of credited service are entitled to retirement benefits payable monthly for life, equal to 1.7% of their final average compensation. Employees who retire at age 55 with 15 or more years of credited service are entitled to reduced benefits. There is no mandatory retirement. Deferred retirement is provided by MERS. MERS also provides for death and disability benefits. Benefits are established by Michigan Public Act 427 of 1984.

The Village adopted Benefit E for 1989 which provides a one-time benefit increase to present retirees and beneficiaries equal to two percent of the present benefits times the number of years since the later of retirement or the last Benefit E increase (Benefit E may be readapted from time to time). Beginning March 1, 1990 the Village adopted Benefit E-1. This plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired before the effective date of Benefit E-1. Cumulative increases are limited to increases in the consumer price index.

Village of Shepherd  
Notes To The Financial Statements

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The Village has the responsibility for making actuarially determined contributions to MERS. The required contributions are zero. The employees made contributions of 2% of annual compensation during the fiscal year ended February 29, 2004. For the year ended February 29, 2004 the Village's annual pension cost was zero.

**NOTE 13 – FUND BALANCE RESERVES**

In the fund level financial statements a portion of the fund balance at February 29<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

**NOTE 14 – RISK MANAGEMENT**

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Village has purchased commercial insurance from independent insurance providers for property loss, professional liability, and employee injuries (worker's compensation). Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Village also participates in the Michigan Municipal Risk Management Authority (MMRMA) risk pool program. The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Village is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention.

If a covered loss exceeds the Village's limits, all further payments for such loss are the sole obligation of the Village. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Village is the sole obligation of the Village.

The Village's coverage limits include \$11,000,000 for liability and \$2,000,000 for vehicle physical damage. The contribution made by the Village to the MMRMA was \$26,845 for the period March 1, 2003 to March 1, 2004.

Village of Shepherd  
Notes To The Financial Statements

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**NOTE 15 – SEGMENT INFORMATION**

The Village maintains two enterprise funds which provides water and sewer services. Segment information for the year ended February 29, 2004 is as follows:

	<b>Sewer Fund</b>	<b>Water Fund</b>
Operating Revenues	\$43,903	\$86,498
Depreciation Expense	58,995	56,098
Operating Income Or (Loss)	(115,242)	(41,757)
Operating Transfers In (Out)	(25,000)	10,000
Net Income (Loss)	(134,953)	(18,438)
Plant, Property And Equipment Additions	-	44,155
Net Working Capital	149,177	132,062
Total Equity	1,721,213	1,777,880

**REQUIRED SUPPLEMENTAL INFORMATION**

BUDGETARY COMPARISON SCHEDULE

Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
Governmental Funds  
For the year ended February 29, 2004

	General Fund			Major Street Fund		
	Budget	Actual	Difference	Budget	Actual	Difference
<b>Revenues</b>						
Property taxes	\$256,739	\$255,058	(\$1,681)	-	-	-
Special assessments	-	-	-	-	-	-
State shared revenues	173,000	168,505	(4,495)	\$72,000	\$79,317	\$7,317
Charges for services	48,000	48,307	307	-	-	-
Interest and rents	42,300	57,442	15,142	1,000	3,513	2,513
Miscellaneous	17,500	10,761	(6,739)	-	-	-
<b>Total revenues</b>	<b>537,539</b>	<b>540,073</b>	<b>2,534</b>	<b>73,000</b>	<b>82,830</b>	<b>9,830</b>
<b>Expenditures</b>						
Legislative	28,623	26,345	2,278	-	-	-
General government	80,830	95,391	(14,561)	-	-	-
Public safety	38,700	37,453	1,247	-	-	-
Public works	175,465	187,390	(11,925)	388,644	450,642	(61,998)
Recreation and culture	3,400	3,636	(236)	-	-	-
Capital outlay	69,100	31,377	37,723	-	-	-
Debt service	-	-	-	-	-	-
Other expenditures	84,837	97,730	(12,893)	-	-	-
<b>Total expenditures</b>	<b>480,955</b>	<b>479,322</b>	<b>1,633</b>	<b>388,644</b>	<b>450,642</b>	<b>(61,998)</b>
Excess of revenues over (under) expenditures	56,584	60,751	4,167	(315,644)	(367,812)	(52,168)
Other financing sources (uses)						
Operating transfers in	49,500	51,344	1,844	363,749	12,972	(350,777)
Operating transfers (out)	(98,049)	(114,795)	(16,746)	-	(58,479)	(58,479)
Excess of revenues and other sources over (under) expenditures and other uses	8,035	(2,700)	(10,735)	48,105	(413,319)	(461,424)
Fund balance, beginning of year	134,000	182,990	48,990	15,000	563,540	548,540
Prior period adjustment	-	21,545	21,545	-	13,535	13,535
<b>Fund balance, end of year</b>	<b>\$142,035</b>	<b>\$201,835</b>	<b>\$59,800</b>	<b>\$63,105</b>	<b>\$163,756</b>	<b>\$100,651</b>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual  
Governmental Funds  
For the year ended February 29, 2004

	Local Street Fund			Police Fund		
	Budget	Actual	Difference	Budget	Actual	Difference
<b>Revenues</b>						
Property taxes	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
State shared revenues	\$25,000	\$27,946	\$2,946	\$578	\$633	\$55
Charges for services	-	-	-	-	-	-
Interest and rents	1,000	606	(394)	200	470	270
Miscellaneous	-	-	-	3,014	6,770	3,756
<b>Total revenues</b>	<b>26,000</b>	<b>28,552</b>	<b>2,552</b>	<b>3,792</b>	<b>7,873</b>	<b>4,081</b>
<b>Expenditures</b>						
Legislative	-	-	-	-	-	-
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	43,937	47,622	(3,685)	115,774	105,607	10,167
Recreation and culture	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Other expenditures	-	-	-	-	-	-
<b>Total expenditures</b>	<b>43,937</b>	<b>47,622</b>	<b>(3,685)</b>	<b>115,774</b>	<b>105,607</b>	<b>10,167</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(17,937)</b>	<b>(19,070)</b>	<b>(1,133)</b>	<b>(111,982)</b>	<b>(97,734)</b>	<b>14,248</b>
<b>Other financing sources (uses)</b>						
Operating transfers in	6,800	9,542	2,742	85,000	85,000	-
Operating transfers (out)	-	-	-	-	-	-
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<b>(11,137)</b>	<b>(9,528)</b>	<b>1,609</b>	<b>(26,982)</b>	<b>(12,734)</b>	<b>14,248</b>
<b>Fund balance, beginning of year</b>	<b>45,000</b>	<b>58,067</b>	<b>13,067</b>	<b>44,000</b>	<b>50,750</b>	<b>6,750</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>5,018</b>	<b>5,018</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$33,863</b>	<b>\$53,557</b>	<b>\$19,694</b>	<b>\$17,018</b>	<b>\$38,016</b>	<b>\$20,998</b>

The notes to the financial statements are an integral part of this statement.

**OTHER SUPPLEMENTAL INFORMATION**

INDIVIDUAL FUND STATEMENTS

SCHEDULE OF LONG-TERM DEBT



Village Of Shepherd  
General Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

Assets	<u>2004</u>	<u>2003</u>
Cash and investments	\$171,653	\$175,279
Accounts receivable	15,519	1,395
Due from other governmental units	13,786	-
Prepaid items	<u>15,143</u>	<u>7,742</u>
Total Assets	<u>\$216,101</u>	<u>\$184,416</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$13,029	-
Accrued wages and other payroll liabilities	<u>1,237</u>	<u>\$1,426</u>
Total liabilities	<u>14,266</u>	<u>1,426</u>
Fund balance		
Reserved for prepaid items	15,143	7,742
Unreserved, undesignated	<u>186,692</u>	<u>175,248</u>
Total fund balance	<u>201,835</u>	<u>182,990</u>
Total liabilities and fund balance	<u>\$216,101</u>	<u>\$184,416</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues		
Taxes and penalties	\$255,058	\$240,009
State grants	168,505	182,948
Charges for services	48,307	48,819
Interest and rents	57,442	57,163
Other revenue	10,761	9,002
Total revenues	<u>540,073</u>	<u>537,941</u>
Expenditures		
Legislative	26,345	23,644
General government	95,391	77,539
Public safety	37,453	36,421
Public works	187,390	140,162
Recreational and cultural	3,636	4,395
Other expenditures	97,730	73,903
Capital outlay	31,377	55,979
Total expenditures	<u>479,322</u>	<u>412,043</u>
Excess (deficiency) of revenues over (under) expenditures	<u>60,751</u>	<u>125,898</u>
Other financing sources (uses)		
Operating transfers in	51,344	34,000
Operating transfers out	(114,795)	(318,289)
Total other financing sources (uses)	<u>(63,451)</u>	<u>(284,289)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,700)	(158,391)
Fund Balance, beginning of year	182,990	341,381
Prior Period Adjustment	<u>21,545</u>	<u>-</u>
Fund Balance, end of year	<u>\$201,835</u>	<u>\$182,990</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
General Fund  
Statement of Expenditures  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Legislative		
Village council		
Salaries and wages	\$15,697	\$11,150
Training and education	655	1,694
Printing and publishing	6,066	4,765
Dues and subscriptions	1,357	1,277
Miscellaneous	2,570	4,758
	<u>26,345</u>	<u>23,644</u>
General Government		
Elections board		
Salaries and wages	-	435
Printing and supplies	5,276	1,818
	<u>5,276</u>	<u>2,253</u>
Assessor and building inspector		
Salaries and wages	600	600
	<u>600</u>	<u>600</u>
Legal and professional		
Contracted services	10,576	8,400
Clerk and treasurer		
Salaries and wages	37,886	36,651
Office supplies	3,233	2,311
Contracted services	1,688	1,250
Training and education	723	255
Communications	2,137	1,990
Miscellaneous	2,587	837
	<u>48,254</u>	<u>43,294</u>
Hall and grounds		
Salaries and wages		
Operating supplies	9,208	7,664
Repairs and maintenance	5,809	1,926
Communications	4,251	4,473
Utilities	8,776	7,368
Contracted services	416	330
Miscellaneous	2,225	1,231
	<u>30,685</u>	<u>22,992</u>
Total general government	95,391	77,539

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
General Fund  
Statement of Expenditures  
For The Years Ended February 29, 2004 and February 28, 2003

	<u>2004</u>	<u>2003</u>
Public safety		
Crossing guard		
Contracted services	\$5,206	\$5,310
	<u>32,247</u>	<u>31,111</u>
	<u>37,453</u>	<u>36,421</u>
Public works		
Salaries and wages		
Supplies	21,080	25,675
Contracted services	5,333	4,259
Repairs	51,638	3,089
Trash	14,222	8,740
Equipment rental	44,888	47,157
Miscellaneous	31,063	32,629
Utilities		569
	<u>19,166</u>	<u>18,044</u>
	<u>187,390</u>	<u>140,162</u>
Recreational and cultural		
City park		
Salaries and wages		
Supplies	2,381	2,808
Utilities	94	91
Equipment rental	756	700
Miscellaneous	405	450
	<u>-</u>	<u>346</u>
	<u>3,636</u>	<u>4,395</u>
Other expenditures		
Employee insurances and fringes		
Insurance	51,526	44,204
Payroll taxes	37,809	21,381
Other	6,636	6,143
	<u>1,759</u>	<u>2,175</u>
	<u>97,730</u>	<u>73,903</u>
Capital outlay		
	<u>31,377</u>	<u>55,979</u>
Total expenditures	<u><u>\$479,322</u></u>	<u><u>\$412,043</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Special Revenue Funds  
Combining Balance Sheet  
February 29, 2004

Assets	Major Street	Local Street	Police	Total
Cash and investments	\$153,025	\$50,106	\$40,238	\$243,369
Due from other governmental units	14,742	5,207	597	20,546
Total Assets	<u>\$167,767</u>	<u>\$55,313</u>	<u>\$40,835</u>	<u>\$263,915</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$3,617	\$1,417	\$1,530	\$6,564
Accrued wages and other payroll liabilities	394	339	1,289	2,022
Total liabilities	<u>4011</u>	<u>1756</u>	<u>2,819</u>	<u>8,586</u>
Fund balance				
Unreserved, undesignated	<u>163,756</u>	<u>53,557</u>	<u>38,016</u>	<u>255,329</u>
Total fund balance	<u>163,756</u>	<u>53,557</u>	<u>38,016</u>	<u>255,329</u>
Total liabilities and fund balance	<u>\$167,767</u>	<u>\$55,313</u>	<u>\$40,835</u>	<u>\$263,915</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Special Revenue Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Year Ended February 29, 2004

	Major Street	Local Street	Police	Total
Revenues				
State grants	\$79,317	\$27,946	\$633	\$107,896
Fines and forfeits	-	-	5,609	5,609
Interest	3,513	606	470	4,589
Other revenue	-	-	1,161	1,161
Total revenues	82,830	28,552	7,873	119,255
Expenditures				
Salaries and wages	22,338	19,118	60,740	102,196
Fringe benefits	1,663	1,419	15,823	18,905
Supplies	6,438	3,602	5,519	15,559
Contracted services	398,500	1,629	1,500	401,629
Communications	-	-	2,849	2,849
Utilities	134	-	-	134
Rentals	16,030	11,852	-	27,882
Repairs and maintenance	4,302	9,202	1,077	14,581
Miscellaneous	1,237	800	18,099	20,136
Total expenditures	450,642	47,622	105,607	603,871
Excess of revenues over (under) expenditures	(367,812)	(19,070)	(97,734)	(484,616)
Other financing sources (uses)				
Transfers in	12,972	9,542	85,000	107,514
Transfers (out)	(58,479)	-	-	(58,479)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(413,319)	(9,528)	(12,734)	(435,581)
Fund balance, beginning of year	563,540	58,067	50,750	672,357
Prior period adjustment	13,535	5,018	-	18,553
Fund balance, end of year	\$163,756	\$53,557	\$38,016	\$255,329

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Major Street Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

Assets	<u>2004</u>	<u>2003</u>
Cash and investments	\$153,025	\$564,052
Due from other governmental units	<u>14,742</u>	<u>-</u>
Total assets	<u>\$167,767</u>	<u>\$564,052</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$3,617	-
Accrued wages and other payroll liabilities	<u>394</u>	<u>\$512</u>
Total liabilities	<u>4,011</u>	<u>512</u>
Fund balance		
Unreserved, undesignated	<u>163,756</u>	<u>563,540</u>
Total fund balance	<u>163,756</u>	<u>563,540</u>
Total liabilities and fund balance	<u>\$167,767</u>	<u>\$564,052</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Major Street Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues		
State grants	\$79,317	\$75,537
Interest	3,513	27,253
Other revenue	-	21,700
Total revenues	<u>82,830</u>	<u>124,490</u>
Expenditures		
Salaries and wages	22,338	16,337
Fringe benefits	1,663	1,156
Supplies	6,438	9,901
Contracted services	398,500	201,988
Utilities	134	161
Rentals	16,030	11,817
Repairs and maintenance	4,302	3,683
Miscellaneous	1,237	3,400
Total expenditures	<u>450,642</u>	<u>248,443</u>
Excess of revenues over (under) expenditures	(367,812)	(123,953)
Other financing sources (uses)		
Transfers in	12,972	78,000
Transfers (out)	<u>(58,479)</u>	<u>(11,331)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(413,319)	(57,284)
Fund balance, beginning of year	563,540	620,824
Prior period adjustment	<u>13,535</u>	<u>-</u>
Fund balance, end of year	<u><u>\$163,756</u></u>	<u><u>\$563,540</u></u>

The notes to the financial statements are an integral part of this statement.



Village Of Shepherd  
Local Street Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

Assets	<u>2004</u>	<u>2003</u>
Cash and investments	\$50,106	\$58,552
Due from other governmental units	<u>5,207</u>	<u>-</u>
Total assets	<u>\$55,313</u>	<u>\$58,552</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,417	-
Accrued wages and other payroll liabilities	<u>339</u>	<u>\$485</u>
Total liabilities	<u>1,756</u>	<u>485</u>
Fund balance		
Unreserved, undesignated	<u>53,557</u>	<u>58,067</u>
Total fund balance	<u>53,557</u>	<u>58,067</u>
Total liabilities and fund balance	<u>\$55,313</u>	<u>\$58,552</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Local Street Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues		
State grants	\$27,946	\$26,568
Interest	606	1,207
Other revenue	-	18,104
	<u>28,552</u>	<u>45,879</u>
Total revenues		
Expenditures		
Salaries and wages	19,118	15,273
Fringe benefits	1,419	1,077
Supplies	3,602	6,467
Contracted services	1,629	33,925
Rentals	11,852	10,801
Repairs and maintenance	9,202	289
Miscellaneous	800	218
	<u>47,622</u>	<u>68,050</u>
Total expenditures		
Excess of revenues over (under) expenditures	(19,070)	(22,171)
Other financing sources (uses)		
Transfers in	9,542	21,331
Transfers (out)		
	<u>9,542</u>	<u>21,331</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,528)	(840)
Fund balance, beginning of year	58,067	58,907
Prior period adjustment	5,018	-
	<u>53,557</u>	<u>58,067</u>
Fund balance, end of year	<u>\$53,557</u>	<u>\$58,067</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Police Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

Assets	<u>2004</u>	<u>2003</u>
Cash and investments	\$40,238	\$51,754
Due from other governmental units	<u>597</u>	
Total assets	<u>\$40,835</u>	<u>\$51,754</u>
Liabilities and fund balance		
Liabilities		
Accounts payable	\$1,530	-
Accrued wages and other payroll liabilities	<u>1,289</u>	<u>\$1,004</u>
Total liabilities	<u>2,819</u>	<u>1,004</u>
Fund balance		
Unreserved, undesignated	<u>38,016</u>	<u>50,750</u>
Total fund balance	<u>38,016</u>	<u>50,750</u>
Total liabilities and fund balance	<u>\$40,835</u>	<u>\$51,754</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Police Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues		
State grants		
Fines and forfeits	\$633	\$577
Interest	5,609	2,938
Other revenue	470	2,449
	<u>1,161</u>	<u>23,718</u>
Total revenues	<u>7,873</u>	<u>29,682</u>
Expenditures		
Salaries and wages		
Fringe benefits	60,740	68,139
Supplies	15,823	15,199
Gasoline	1,488	1,006
Uniforms	3,138	2,390
Professional services	893	1,894
Auto	1,500	1,500
Telephone	1,077	1,173
Radio	1,667	1,443
Education and training	1,182	3,727
Other	407	151
Equipment	2,214	1,672
Saginaw chippewa grant expenditures	942	26,161
Miscellaneous	13,320	-
	<u>1,216</u>	<u>9,758</u>
Total expenditures	<u>105,607</u>	<u>134,213</u>
Excess of revenues over (under) expenditures	(97,734)	(104,531)
Other financing sources (uses)		
Transfers in		
Transfers (out)	85,000	118,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(12,734)	13,469
Fund balance, beginning of year	50,750	37,281
Prior period adjustment	-	-
Fund balance, end of year	<u>\$38,016</u>	<u>\$50,750</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Debt Service Funds  
Combining Balance Sheet  
February 29, 2004

Assets	Street Improvement	Storm Water Separation Project	Total
Cash and investments	\$13	\$216,708	\$216,721
Special assessments receivable	-	81,872	81,872
Due from other governmental units	-	15,172	15,172
Total current assets	13	313,752	313,765
Long-term assets			
Special assessments receivable	-	654,008	654,008
Total assets	<u>\$13</u>	<u>\$967,760</u>	<u>\$967,773</u>
Liabilities and fund balance			
Current liabilities			
Accounts payable	-	\$5,000	\$5,000
Long-term liabilities			
Deferred special assessments revenue	-	654,008	654,008
Total liabilities	-	659,008	659,008
Fund balance			
Unreserved	\$13	-	13
Reserved for debt retirement	-	308,752	308,752
Total fund balance	13	308,752	308,765
Total liabilities and fund balance	<u>\$13</u>	<u>\$967,760</u>	<u>\$967,773</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Debt Service Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Year Ended February 29, 2004

	Street Improvement	Storm Water Separation Project	Total
Revenues			
Special assessment collections	-	\$155,719	\$155,719
User fee revenues	-	77,438	77,438
Interest	-	3,418	3,418
Total revenues	-	236,575	236,575
Expenditures			
Principal payments		180,000	180,000
Interest		90,005	90,005
Miscellaneous		300	300
Total expenditures	-	270,305	270,305
Excess of revenues over (under) expenditures	-	(33,730)	(33,730)
Other financing sources (uses)			
Transfers in	-	20,000	20,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	(13,730)	(13,730)
Fund Balance, beginning of year	\$13	322,482	322,495
Fund balance, end of year	\$13	\$308,752	\$308,765

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Storm Water Separation Project Debt Service Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

Assets	<u>2004</u>	<u>2003</u>
Current assets		
Cash and investments	\$216,708	\$223,947
Special assessments receivable - current portion	81,872	91,702
Due from other governmental units	<u>15,172</u>	<u>6,833</u>
Total current assets	313,752	322,482
Long-term assets		
Special assessments receivable	<u>654,008</u>	<u>1,002,448</u>
Total assets	<u><u>\$967,760</u></u>	<u><u>\$1,324,930</u></u>
Liabilities and fund balance		
Current liabilities		
Accounts payable	\$5,000	
Long-term liabilities		
Deferred special assessments revenue	<u>654,008</u>	<u>\$1,002,448</u>
Total liabilities	<u>659,008</u>	<u>1,002,448</u>
Fund balance		
Reserved for debt retirement	<u>308,752</u>	<u>322,482</u>
Total fund balance	<u>308,752</u>	<u>322,482</u>
Total liabilities and fund balance	<u><u>\$967,760</u></u>	<u><u>\$1,324,930</u></u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Storm Water Separation Project Debt Service Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

	2004	2003
Revenues		
Special assessment collections		
User fee revenues	\$155,719	\$258,010
Interest	77,438	57,572
	<u>3,418</u>	<u>4,731</u>
Total revenues	<u>236,575</u>	<u>320,313</u>
Expenditures		
Principal payments		
Interest	180,000	160,000
Miscellaneous	90,005	96,725
	<u>300</u>	<u>300</u>
Total expenditures	<u>270,305</u>	<u>257,025</u>
Excess of revenues over (under) expenditures	(33,730)	63,288
Other financing sources (uses)		
Transfers in	<u>20,000</u>	<u>20,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(13,730)	83,288
Fund Balance, beginning of year	322,482	239,194
Prior period adjustment	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$308,752</u></u>	<u><u>\$322,482</u></u>

The notes to the financial statements are an integral part of this statement.



Village Of Shepherd  
Capital Projects Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

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Assets	<u>2004</u>	<u>2003</u>
Cash and investments	<u>138,662</u>	<u>147,288</u>
Total assets	<u>\$138,662</u>	<u>\$147,288</u>
Liabilities and fund balance		
Fund balance		
Unreserved, undesignated	<u>\$138,662</u>	<u>\$147,288</u>
Total fund balance	<u>138,662</u>	<u>147,288</u>
Total liabilities and fund balance	<u>\$138,662</u>	<u>\$147,288</u>

The notes to the financial statements are an integral part of this statement.

Village Of Shepherd  
Capital Projects Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Years Ended February 29, 2004 and February 28, 2003

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	<u>2004</u>	<u>2003</u>
Revenues		
Interest	<u>\$1,322</u>	<u>\$2,718</u>
Total revenues	<u>1,322</u>	<u>2,718</u>
Excess of revenues over (under) expenditures	1,322	2,718
Other financing sources (uses)		
Transfers in	58,541	53,789
Transfers (out)	<u>(68,489)</u>	<u>(40,500)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(8,626)	16,007
Fund balance, beginning of year	<u>147,288</u>	<u>131,281</u>
Fund balance, end of year	<u><u>\$138,662</u></u>	<u><u>\$147,288</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Enterprise Funds  
Combining Balance Sheets  
February 29, 2004

	Sewer Fund	Water Fund	Total Enterprise Funds
Assets			
Cash and cash equivalents	\$140,103	\$105,552	\$245,655
Accounts receivable	9,508	17,088	26,596
Inventory	-	10,800	10,800
Total Current Assets	<u>149,611</u>	<u>133,440</u>	<u>283,051</u>
Property, Plant and Equipment, net	<u>1,572,036</u>	<u>1,645,818</u>	<u>3,217,854</u>
Total Assets	<u><u>\$1,721,647</u></u>	<u><u>\$1,779,258</u></u>	<u><u>\$3,500,905</u></u>
Liabilities			
Accounts payable	\$198	\$1,021	\$1,219
Accrued wages and other payroll liabilities	236	357	593
Total Liabilities	<u>434</u>	<u>1,378</u>	<u>1,812</u>
Retained Earnings Unreserved	<u>1,721,213</u>	<u>1,777,880</u>	<u>3,499,093</u>
Total Liabilities and Retained Earnings	<u><u>\$1,721,647</u></u>	<u><u>\$1,779,258</u></u>	<u><u>\$3,500,905</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Enterprise Funds  
Combining Statement of Revenues, Expenses and Changes in Retained Earnings  
For the year ended February 29, 2004

	Sewer Fund	Water Fund	Total Enterprise Funds
Operating revenues			
Service charges			
User fees	\$41,703	\$68,371	\$110,074
Hydrant rental	2,200	7,549	9,749
Miscellaneous	-	1,500	1,500
	-	9,078	9,078
Total operating revenues	<u>43,903</u>	<u>86,498</u>	<u>130,401</u>
Operating expenses			
Salaries and wages	8,768	23,168	31,936
Fringe benefits	652	1,773	2,425
Supplies	4,152	24,413	28,565
Contracted services	60,179	1,422	61,601
Communications	-	-	-
Utilities	1,399	7,958	9,357
Rentals	-	281	281
Repairs and maintenance	-	11,724	11,724
Debt payment	20,000	-	20,000
Depreciation	58,995	56,098	115,093
Miscellaneous	5,000	1,418	6,418
Total operating expenses	<u>159,145</u>	<u>128,255</u>	<u>287,400</u>
Operating income (loss)	(115,242)	(41,757)	(156,999)
Non-operating revenues (expenses)			
Interest income	3,217	1,300	4,517
Other	2,072	12,019	14,091
Total non-operating revenues (expenses)	<u>5,289</u>	<u>13,319</u>	<u>18,608</u>
Other financing sources (uses)			
Operating transfers out	(25,000)	10,000	(15,000)
Net income	(134,953)	(18,438)	(153,391)
Retained earnings - beginning of year	1,856,166	1,796,318	3,652,484
Retained earnings - end of year	<u>\$1,721,213</u>	<u>\$1,777,880</u>	<u>\$3,499,093</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Cash Flows  
Enterprise Funds  
For the year ended February 29, 2004

	Sewer Fund	Water Fund	Total Enterprise Funds
Cash flows from operating activities:			
Income from operations	(\$115,242)	(\$41,757)	(\$156,999)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	58,995	56,098	115,093
(Increase) decrease in:			
Accounts receivable	(215)	(7,993)	(8,208)
Increase (decrease) in:			
Accounts payable	198	1,020	1,218
Accrued expenses	211	51	262
Net cash provided by operating activities	(56,053)	7,419	(48,634)
Cash flows from non-capital financing activities:			
Operating transfers in	-	10,000	10,000
Operating transfers (out)	(25,000)	-	(25,000)
Cash flows from capital and related financing activities:			
Purchases of fixed assets	-	(44,155)	(44,155)
Cash flows from investing activities:			
Interest income	3,217	1,300	4,517
Other	2,502	12,019	14,521
Net cash provided by investing activities	5,719	13,319	19,038
Net increase (decrease) in cash and cash equivalents	(75,334)	(13,417)	(88,751)
Cash and cash equivalents - beginning of year	215,437	118,969	334,406
Cash and cash equivalents - end of year	\$140,103	\$105,552	\$245,655

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Sewer Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$140,103	\$215,437
Accounts receivable	<u>9,508</u>	<u>9,723</u>
Total Current Assets	<u>149,611</u>	<u>225,160</u>
Property, Plant and Equipment, net	<u>1,572,036</u>	<u>1,631,031</u>
Total Assets	<u>\$1,721,647</u>	<u>\$1,856,191</u>
Liabilities		
Accounts payable	\$198	-
Accrued wages and other payroll liabilities	<u>236</u>	<u>\$25</u>
Total Liabilities	<u>434</u>	<u>25</u>
Retained earnings Unreserved	<u>1,721,213</u>	<u>1,856,166</u>
Total Liabilities and Retained Earnings	<u>\$1,721,647</u>	<u>\$1,856,191</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Sewer Fund  
Statement of Revenues, Expenses and Changes in Retained Earnings  
For the years ended February 29, 2004 and February 28, 2003

	2004	2003
Operating revenues		
Service charges	\$41,703	\$40,377
User fees	2,200	3,660
Total operating revenues	43,903	44,037
Operating Expenses		
Salaries and wages	8,768	11,615
Fringe benefits	652	887
Supplies	4,152	2,974
Contracted services	60,179	13,387
Utilities	1,399	1,559
Debt Payment	20,000	20,000
Depreciation	58,995	58,995
Miscellaneous	5,000	10,000
Total operating expenses	159,145	119,417
Operating income (loss)	(115,242)	(75,380)
Non-operating revenues (expenses)		
Interest income	3,217	5,402
Other	2,072	772
Total non-operating revenues (expenses)	5,289	6,174
Other financing sources (uses)		
Operating transfers out	(25,000)	(20,000)
Net income	(134,953)	(89,206)
Retained earnings - beginning of year	1,856,166	1,945,372
Retained earnings - end of year	<u>\$1,721,213</u>	<u>\$1,856,166</u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Water Fund  
Balance Sheet  
February 29, 2004 and February 28, 2003

	<u>2004</u>	<u>2003</u>
Assets		
Cash and cash equivalents	\$105,552	\$118,969
Accounts receivable	17,088	9,095
Inventory	<u>10,800</u>	<u>10,800</u>
Total Current Assets	<u>133,440</u>	<u>138,864</u>
Property, Plant and Equipment, net	<u>1,645,818</u>	<u>1,657,760</u>
Total Assets	<u><u>\$1,779,258</u></u>	<u><u>\$1,796,624</u></u>
Liabilities		
Accounts payable	\$1,021	-
Accrued wages and other payroll liabilities	<u>357</u>	<u>\$306</u>
Total Liabilities	<u>1,378</u>	<u>306</u>
Retained earnings Unreserved	<u>1,777,880</u>	<u>1,796,318</u>
Total Liabilities and Retained Earnings	<u><u>\$1,779,258</u></u>	<u><u>\$1,796,624</u></u>

The notes to the financial statements are an integral part of this statement.



Village of Shepherd  
Water Fund  
Statement of Revenues, Expenses and Changes in Retained Earnings  
For the years ended February 29, 2004 and February 28, 2003

	2004	2003
Operating revenues		
Service charges		
User fees	\$68,371	\$68,770
Hydrant rental	7,549	13,086
Miscellaneous	1,500	6,000
	<u>9,078</u>	<u>6,600</u>
Total operating revenues	<u>86,498</u>	<u>94,456</u>
Operating expenses		
Salaries and wages		
Fringe benefits	23,168	19,075
Supplies	1,773	1,436
Contracted services	24,413	24,454
Rentals	1,422	1,364
Repairs	281	105
Printing and publishing	11,724	3,904
Utilities	-	330
Depreciation	7,958	7,049
Miscellaneous	56,098	56,690
	<u>1,418</u>	<u>1,556</u>
Total operating expenses	<u>128,255</u>	<u>115,963</u>
Operating income (loss)	(41,757)	(21,507)
Non-operating revenues (expenses)		
Interest income		
Other	1,300	2,520
Miscellaneous	12,019	22,688
	<u>-</u>	<u>(6,505)</u>
Total non-operating revenues (expenses)	<u>13,319</u>	<u>18,703</u>
Other financing sources (uses)		
Operating transfers in (out)	10,000	65,000
Net income (loss)	(18,438)	62,196
Retained earnings - beginning of year	<u>1,796,318</u>	<u>1,734,122</u>
Retained earnings - end of year	<u><u>\$1,777,880</u></u>	<u><u>\$1,796,318</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
February 29, 2004 and February 28, 2003

**AGENCY FUND**

<b>Assets</b>	<u>2004</u>	<u>2003</u>
Cash - payroll account	\$3,209	\$456
Cash - tax account	<u>87</u>	<u>32</u>
Total assets	<u><u>\$3,296</u></u>	<u><u>\$488</u></u>
 <b>Liabilities</b>		
Payroll taxes and other withholdings payable	\$3,209	\$456
Due to other funds	<u>87</u>	<u>32</u>
Total liabilities	<u>3,296</u>	<u>488</u>
 <b>Net assets</b>		
	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u><u>\$3,296</u></u>	<u><u>\$488</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Shepherd  
Schedule of Long-Term Debt  
For The Year Ended February 29, 2004

<u>Maturity Date</u>	<u>Interest Rate (%)</u>	<u>Maturing Per Year</u>	<u>Bonds Outstanding March 1, 2003</u>	<u>Bond Retired</u>	<u>Bonds Outstanding February 29, 2004</u>
<b>Capital Lease</b>					
<b>Isabella County - Shepherd Sanitary Sewer / Storm Water Separation Project Refunding Bonds Series 1999</b>					
Due March 1,					
1999	4.20	-	-	-	-
2000	4.20	\$30,000	-	-	-
2001	4.20	30,000	-	-	-
2002	4.20	160,000	-	-	-
2003	4.20	160,000	-	-	-
2004	4.20	180,000	-	-	-
2005	4.20	180,000	\$180,000	\$180,000	-
2006	4.20	180,000	180,000	-	\$180,000
2007	4.20	190,000	190,000	-	180,000
2008	4.20	190,000	190,000	-	190,000
2009	4.25	190,000	190,000	-	190,000
2010	4.30	190,000	190,000	-	190,000
2011	4.40	190,000	190,000	-	190,000
2012	4.50	190,000	190,000	-	190,000
2013	4.50	190,000	190,000	-	190,000
2014	4.60	210,000	210,000	-	190,000
					210,000
Totals		<u>\$2,460,000</u>	<u>\$2,080,000</u>	<u>\$180,000</u>	<u>\$1,900,000</u>

Maturities on March 1, 2006 or prior - non-callable.  
Maturities after March 1, 2006 - redeemed at par.

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Village Council  
Village of Shepherd  
Shepherd, Michigan

We have audited the financial statements of the Village of Shepherd as of and for the year ended February 29, 2004, and have issued our report thereon dated June 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Village of Shepherd's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village of Shepherd's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 3, 2004.

This report is intended for the information of the audit committee, management, others within the organization, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

June 3, 2004



## MANAGEMENT LETTER

Members of the Village Council  
Village of Shepherd  
Shepherd, Michigan

In planning and performing our audit of the financial statements for the Village of Shepherd for the fiscal year ended February 29, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated June 3, 2004 on the financial statements of the Village of Shepherd.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Company, P.C.*

ROSLUND, PRESTAGE AND COMPANY, P.C.  
Certified Public Accountants

June 3, 2004

Village of Shepherd  
February 29, 2004

### **Council Oversight**

The size of the Village's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Therefore, we recommend that the members of the Village Council maintain a level of involvement in the financial affairs of the Village to provide appropriate oversight and independent review functions.

### **Management's Discussion and Analysis**

For the year ended February 29, 2004, the Village reported their financial statements under GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. One of the many requirements of GASB No. 34 is Management's Discussion and Analysis, also known as MD&A. MD&A is intended to give the reader an easy to understand overview of the Village's financial position and results of operations.

We recommend management establish an ongoing MD&A file. As events occur during the year that should be considered for disclosure in MD&A, copies of the related documents, as well as additional notes and comments, should be placed in this file for future reference when completing the MD&A section of the annual audit.

### **Inventory**

The Village currently records inventory only in the Water Fund. This balance, however, is not supported by a detailed list of items that make up the total inventory reconciled to the general ledger. We recommend that management establish procedures to periodically update the inventory list and reconcile the total per the list to the general ledger.

We also recommend that management review their policies and procedures for recording inventories in other funds. If inventory balances are not considered material, as often is the case, the Village should adopt a policy to expense those items when purchased. If the balances are considered material, then the inventory balances should be established and periodically updated and reconciled to the general ledger.

Village of Shepherd  
February 29, 2004

### **Checklist, Narratives, and Flowcharts**

In order to ensure that all accounting procedures are performed on a timely basis, we recommend that comprehensive checklists be prepared to be used by all staff, as necessary. These checklists should cover all procedures that need to be performed on a periodic basis.

We also recommend that all procedures performed be documented in writing in the form of narratives. In addition to the narratives, flowcharts can be helpful in communicating procedures performed and documentation requirements in a format that is easy to read and helps to see the "flow" of activity. These checklists, narratives, and flowcharts can then be incorporated into a procedures manual.

### **Perform a Fraud Risk Assessment**

In light of the recent frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances.

Whereas the highly publicized frauds mentioned above involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly in the area of cash receipts and disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Village perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Village's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Village. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Village, its environment, and its processes. The fraud risk assessment process should consider the Village's vulnerability to misappropriation of assets.



When conducting the self-assessment, questions such as the following can be considered:

- What individuals in the Village have the opportunity to misappropriate assets?
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets?
- What assets of the Village are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen?
- How could potential misappropriation of assets be concealed?
- What factors might indicate that the Village has a culture or environment that would enable management or employees to rationalize committing fraud?

### **Establishment of Audit Committee**

By establishing an audit committee, the Village Council may achieve an increased understanding of (1) the role of the independent auditors and the nature and limitations of their work and (2) the importance of accounting, financial, and operating controls to the successful management of a business and reliable financial reports. The Village should consider forming an audit committee to assist the board of directors in discharging its responsibilities. In many cases the Finance Committee, if one has been established, often doubles as the Audit Committee. The committee's objectives and responsibilities should be set forth in a written document approved by the Council.

The following are some of the general duties of an audit committee:

- Approve the selection of the independent auditor. Review the arrangements for, and scope of, the audit.
- Consider the comments from the independent auditor including those with respect to weaknesses in internal accounting control and the consideration given to such comments, or corrective action taken by management.
- Discuss matters of concern to the audit committee, the auditor, or management relating to the Village's financial statements or other results of the audit.
- Review internal accounting procedures and controls with the Village's financial and accounting staff.
- Review the activities and recommendations of the Village's internal auditors.

Village of Shepherd  
February 29, 2004

It also may be appropriate for the audit committee to perform additional duties as assigned by the Village Council. Such duties might include review of financial statements and other financial information distributed by the Village to the public; review of changes in accounting principles; review of nonaudit services performed by the independent auditor; establishment and monitoring of policies to prohibit unethical, questionable, or illegal activities by employees; or review of executive perquisites. Whether the audit committee should be assigned any of these additional duties would depend on the policies and organization of the Village.

### **Bank Statements and Reconciliations**

#### **INVESTIGATE THE DIFFERENCE BETWEEN THE BANK STATEMENT BALANCE AND THE GENERAL LEDGER**

We noted that in some of the bank reconciliations there is a difference between the bank balance and the general ledger. It is important for the control over cash that this account is reconciled to the penny. Unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Also, if small differences are not reconciled on a monthly basis, over time, they can build up to a significant amount that will be difficult to reconcile. In preparing the bank reconciliations, all items should be investigated and corrected in that period.

#### **BANK RECONCILIATIONS DUTIES**

Internal control is most effective when the bank reconciliation is prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that a member of management, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by employees preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

These procedures should be performed monthly and added to the accounting policies.

Village of Shepherd  
February 29, 2004

We also recommend that a review of the reconciliations be made from time to time by one or more of the board members, typically from the finance committee. In addition, he or she should sign the bank reconciliation that was tested.

### **Fixed Assets**

We suggest that management review and, if necessary, revise the current fixed asset policy pursuant to the implementation of GASB 34. This policy should include: 1) establishment of a threshold at which an asset will be capitalized for reporting purposes (we suggest using cost of \$5,000 or more), 2) establishment of a threshold at which an asset will be capitalized for management control purposes if different than the amounts used for reporting purposes (we suggest the this threshold be no smaller than \$500), 3) establishment of useful lives for various classes of assets, 4) procedures for assuring that all acquisitions and disposals are accurately and timely recorded in the inventory list of capital assets, 5) identification of individual(s) responsible for maintaining assets lists.

We also suggest that you consider purchasing a fixed assets depreciation program to help in maintaining the record of fixed assets and calculation of the depreciation expense. As an alternative, this service can be purchased from an outside vendor.

### **Street Improvement Debt Service Fund**

The Street Improvement Debt Service Fund consists of a small amount of cash and had no activity for the last fiscal year. We recommend that you close this fund and transfer the remaining cash balance to the other debt service fund.

### **Chart of Accounts**

In April 2002 the State of Michigan issued an updated *Uniform Chart of Accounts for Counties and Local Units of Government* pursuant to the issuance of GASB 34. We have provided a copy of this document to management. We recommend that management review the new chart of accounts and continue to make the necessary changes to be in compliance.

We also recommend that all unnecessary accounts be removed from the current chart of accounts.

Village Of Shepherd  
February 29, 2004

### **General Ledger**

During our review of the general ledger we found that not all balance sheet accounts were included in the general ledger, with investments (certificates of deposits as well as other savings accounts) being the most notable. We recommend that all assets and liabilities of the Village be included in the general ledger of each respective fund and that each of these accounts be periodically reconciled with supporting records.

### **Fund Balance**

The balance in the "Fund Balance" account should change only at the end of each fiscal year. This account will increase by the "profit" or decrease by the "loss" when the year-end closing entry is posted. During our audit we found that fund balance did not agree with the balance at the end of the last audited financial statements (February 28, 2003) for seven of the nine funds. This was due primarily because the auditor's adjusting entries were not posted to the general ledger as of February 28, 2003.

In the future, we recommend that management prepare a reconciliation of fund balance at the end of each fiscal year to determine that the fund balances for each fund agrees with the amounts shown in the prior audited financial statements. Any changes to fund balance for the current year should be posted to a separate account titled Prior Period Adjustments and these adjustments should be reconciled to supporting documentation detailing the need for the adjustments.

### **Transfers Between Funds**

Transfers between funds represent cash moved from one fund to another without the expectation that the cash will be returned to the originating fund. This will result in an expenditure (transfer out) in the "paying" fund and a revenue (transfer in) in the "receiving" fund. This can also occur without the transfer of cash if one fund is paying expenditures on behalf of another. In any case, the *transfers in* should equal the *transfers out*, in total, when all such activity is considered for all the funds of the Village.

During our audit we found that the transfers in did not equal the transfers out. We recommend that management reconcile all transfers in and transfers out periodically to make sure that they equal.

Village Of Shepherd  
February 29, 2004

### **Certificates of Deposit**

During our review of investments we found that some of the certificates of deposits (CDs) owned by the Village, and confirmed by the bank, were not supported by an original copy. While it is common for CDs to be renewed for an additional period without receiving a new certificate, we recommend that the Village maintain an original copy of all CDs.

### **Develop an Accounting Policies and Procedures Manual**

We recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to policies.
- Aid in exchange of management ideas.
- Provide the Village with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

### **Review General Ledger Monthly**

In order to make the financial reports generated by the accounting system as meaningful as possible, management should review the general ledger for posting errors and unusual account balances on a monthly basis. Account balances that are unusually high or low should be investigated and, if necessary, adjusted before processing the next month's activity. Scanning the activity in each account can help to identify posting errors. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Village Of Shepherd  
February 29, 2004

### **Records Retention Policy**

The preparation and retention of all types of records and documents, and the direct and indirect costs related thereto, are matters requiring periodic review and evaluation. In light of the volume of the records and the costs related to their preparation and retention, we recommend the adoption of procedures to review and evaluate record keeping requirements and the adherence thereto on a periodic basis (such as every one or two years).

### **Time Sheet Approval**

During our review of payroll we found that not all time sheets required by employees are approved by a supervisor or another member of management. We recommend that all time sheets are approved by a supervisor or another responsible person (separate from the employee themselves) that has the knowledge of the employee's actual time.

### **Budgets**

Although the Village is adopting budgets for the required funds annually, we recommend that the format used in this process be changes to more closely match the reporting requirements in the annual audit.

We have provided a sample format to management to consider for use in the future.